



INTERNAL SERVICE FUND RATES AND IMPACTS – FY 2018 AND 2019

EXECUTIVE APPROPRIATIONS COMMITTEE – STAFF: RYAN MORTENSON AND SEÁN FAHERTY

ISSUE BRIEF

Summary

An internal service fund (ISF) agency is a state entity that provides goods or services to other government agencies on a cost-reimbursement basis. Each fiscal year ISF agencies propose new rates based on expected costs; the Legislature then makes funding decisions based on those proposals.

The rates approved by the rate committees and presented to the Legislature for consideration include increases equal to 2% for salary and 7% for health care cost increases. This is a change from past practice where agencies would submit rate changes after the Legislature had made decisions regarding state employee compensation. This year, the Office of the Legislative Fiscal Analyst (LFA) recommends the following:

- 1) The Executive Appropriations Committee (EAC) continue to refer all consumption-based ISF rate impacts to the appropriations subcommittee with jurisdiction over the ISF for review and approval as part of the fee bill.
- 2) LFA recommends actuarially calculated rates be reviewed by the Executive Appropriations Committee each fall separately from consumption based rates.

Background

ISF agencies employ business practices to take advantage of economies of scale, to avoid duplication of effort, and to provide an accounting mechanism to identify costs of certain governmental services. There are three primary advantages to using internal service funds within government. First, ISFs charge customer agencies at rates set by the Legislature, and the price mechanism motivates customer agencies to find efficiencies to reduce expenses for ISF services so that operational budgets can be utilized elsewhere. Second, agencies can use federal and restricted funds to pay for ISF services rather than relying solely on General Fund and Education Fund appropriations. Third, ISF rates are generally lower than what can be purchased in the market.

The state's major ISFs are operated by the Department of Administrative Services, the Department of Human Resource Management, and the Department of Technology Services.

The **Department of Administrative Services (DAS)** operates five ISFs:

- The *Division of Facilities Construction and Management* provides building maintenance, management, and preventative maintenance services to subscribers.
- The *Division of Finance* administers the Purchasing Card (P-Card) program and provides consolidated budget and accounting services for the Department of Administrative Services.
- The *Division of Fleet Operations* manages the state's vehicle fleet, fuel network, and statewide travel office.
- The *Division of Purchasing and General Services* provides procurement and contract services and mail, copying, printing, and state and federal surplus services.
- The *Division of Risk Management* provides liability, property, and auto physical damage insurance coverage to state agencies, school districts, charter schools, and institutions of higher education. In addition, Risk Management provides workers' compensation insurance coverage to state agencies.

The **Department of Human Resource Management (DHRM)** is the employer of human resource (HR) employees that are embedded in the state's executive agencies. The goal of having HR employees operate under DHRM is to improve control, coordination, and efficiency of HR functions.

The **Department of Technology Services (DTS)** is the state's central service provider for information technology (IT) related activities, having consolidated all agency IT functions and employees to provide more efficient and effective use of IT resources statewide.

2017 General Session Rate Impacts:

During the 2017 General Session, the total DTS rate impact to state agencies totaled -\$200k. In addition, DTS requested \$2.1 million to fund the compensation and healthcare increase approved by the Legislature for the state entities. Legislators approved the increased rates for the compensation package but did not fund this rate impact. Therefore, DTS has utilized their one-time efficiencies to support employee compensation costs without increasing costs to state agencies.

DAS ISF rate impacts had a total impact of \$1,634,407. This is for state agencies, Higher Education, Public Education, and non-state entities. The only impacts known that weren't funded was the DAS Finance CBA rates of \$25,882 for fund 6085

DHRM did not increase rates for the FY2018.

Liability rates charged by the Division of Risk Management are calculated using an actuarial-type process. Due to federal rules regarding fair assessment of charges, the division must charge the calculated rates, or the federal government could seek reimbursement from the State.

Consequently, agencies must either reprioritize internally or reduce consumption. ISFs have also considered charging rates that are lower than the rates authorized by the Legislature. However, certain rate impacts are driven by actuarial analysis and are not flexible. Some agencies may be unable to absorb those mandatory costs. In such cases, supplemental appropriations may be necessary.

2018 General Session Rate Impacts

For the 2018 General Session, the total projected incremental impact of rate changes for customer agencies is approximately \$3.26 million from all funds including about \$1.38 million from GF/EF.

As with the 2017 General Session, LFA recommends that discretionary rates be sent to the appropriations subcommittees with jurisdiction over the ISF for review and new funding prioritization. This process would ensure that rates are reviewed each year and that the process for recommending funding will be consistent across agencies.

The **Department of Administrative Services**. DAS provides dozens of services, charged at hundreds of rates through its divisions. The department has proposed a number of rate changes for FY 2019 which are detailed by division both below and by customer agency impact in Table 1. The projected impact of DAS rate changes is \$729,800 including \$488,800 from the General Fund and Education Fund.

The **Division of Risk Management** has proposed a 27.1% increase in liability premiums for FY 2019. The impact of this increase is projected to be \$4.5 million, with the majority (\$4.2 million) of the increase to be borne by school districts and charter schools. The reason for this increase is primarily due to the need to re-capture costs for historically high losses over the past few years. This proposed increase has been shared with and presented to the Utah State School Board and the Utah School Boards Association, who are aware and understand the increased cost in the upcoming year.

The **Division of Fleet Operations** proposes the following rate adjustments:

- Decreasing the per vehicle Administrative Fee paid by agencies to the Division of Fleet Operations from \$48.57 per month to \$42.00. In total, this change will save agencies \$363,768 in FY 2019.
- The monthly lease rate calculation would be changed by charging the actual contract price for leases, instead of the 2013 contract price; utilizing a flat salvage value of 25% for vehicles, instead of lower, varying values depending on class and removing the fee for alternative fuel vehicles. These changes are proposed to more accurately reflect the cost of releasing the vehicle and to acknowledge the higher salvage values the state surplus property division is experiencing. The net result of this change will mean a \$250,265 increase for agencies in FY 2019.
- Increasing the Management Information System monthly per vehicle fee from \$2.72 to \$3.00.
- Increasing the high volume (more than 60,000 gallons per year) per gallon charge at State re-fueling sites from \$0.065 in FY 2018 to \$0.75 in FY 2019.

The **Division of Purchasing and General Services** proposes no changes to the state/surplus property or print services rates. Following last year's restructuring of State Mail and Distribution Services, the Division has proposed 4 rate changes to reflect actual costs for the processing of mail. The proposed changes are as follows:

Task ID	Description	FY17 Volume	Current	Revenue	Proposed	Revenue	Difference	%
31	Auto Fold	12,894,692	\$0.021	\$270,788	\$0.024	\$309,472	\$38,684	14%
100	Meter/Seal	17,163,409	\$0.024	\$411,921	\$0.028	\$480,575	\$68,653	17%
102	OCR	17,412,285	\$0.024	\$417,894	\$0.028	\$487,543	\$69,649	17%
108	Inserting	12,876,829	\$0.030	\$386,304	\$0.033	\$424,935	\$38,630	10%
				\$1,486,910		\$1,702,527	\$215,617	

The **Division of Facilities Construction and Management** proposes to increase the facilities management rates for eight programs, with a reduction for one and increases rates for billable Facilities Management staff labor rates in FY 2019. There are also 9 programs with scope changes for facilities in FY 2018.

The **Department of Human Resources Management (DHRM)**. In DHRM's September ISF Rate Committee meeting, the department requested an increase their HR Services rate. The purpose of the rate increase was to account for a 2% COLA and 7% increase in healthcare costs. The requested rate increase amounted to an additional \$17 per FTE (2.4%) from \$723/FTE to \$740/FTE. They recommended that the Payroll Services rate and the Core HR rate remain unchanged. The committee voted to approve these recommendations. Should the legislature authorize this rate increase, the total impact for the rate increase for DHRM is \$296,000 including \$140,400 from the General Fund and Education Fund. The projected impacts of these changes are included in Table 2 below.

The **Department of Technology Services**. DTS submitted rates to its rate committee this past September that had a total all funds impact of \$2.24 million including \$0.76 million from the General Fund and Education Fund. The purpose of the rate increase was to account for 2% COLA and 7% increase in healthcare costs. DTS also changed rates for application hosting to reflect an effort to better match competitor's price structures. Finally, DTS proposed other slight rate changes including those related to Application Support, Phone Services, Network and Communication, Desktop Support, Email hosting, certain Print Services as well as Data Storage.

The projected impacts of these changes are included in the totals in Table 3 below.

Conclusion:

The combined impact of the proposed DAS, DHRM and DTS rates, if approved for the 2018 General Session would be \$3.26 million (\$1.38 million GF/EF), all from discretionary/consumption based rates.

Due to the differences between actuarially-based and consumption-based rates, LFA recommends that the EAC include actuarially determined rate impacts in its discussion of major cost drivers each fall.

LFA further recommends EAC refer all other ISF rate impacts to the appropriations subcommittee with jurisdiction over the ISF for review and approval as part of the fee bill.

Tables:

Table 1 shows by agency the projected impact of the proposed DAS rates.

Table 2 shows by agency the projected impact of the proposed DHRM rates.

Table 3 shows by agency the projected impact of the proposed DTS rates.

Table 1: Impact of Department of Administrative Services FY 2018 Proposed Rates

Agency Name	Rate Impact	GF/EF Impact
Administrative Services	\$7,600	(\$18,800)
Agriculture	\$12,900	\$11,600
Alcoholic Beverage Control	(\$3,800)	\$0
Attorney General	\$36,700	\$32,700
Board of Pardons and Parole	\$4,100	\$4,100
Capitol Preservation Board	\$2,600	\$2,600
Commerce	\$39,400	\$0
Corrections	\$130,800	\$131,800
Courts	\$105,200	\$83,300
Dixie State University	\$47,400	\$26,300
Economic Development	(\$300)	(\$300)
Environmental Quality	(\$12,900)	(\$3,500)
Financial Institutions	(\$100)	\$0
Governor's Office of Energy Development	(\$100)	(\$100)
Governor's Office	(\$13,900)	(\$15,800)
Health	(\$122,500)	(\$29,000)
Heritage and Arts	\$5,900	\$6,300
Human Services	(\$40,800)	(\$37,200)
Insurance	\$2,300	\$400
Juvenile Justice Services	(\$23,200)	(\$22,300)
Labor Commission	\$17,500	\$18,400
Legislature	\$4,600	\$4,500
Natural Resources	(\$101,400)	(\$45,400)
Office of the State Auditor	\$400	\$300
Public Lands Office	(\$2,300)	(\$1,400)
Public Safety	\$59,700	\$34,200
Public Service Commission	\$100	\$0

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Restricted Account Transfers – NRAE	\$14,500	\$14,500
Salt Lake Community College	\$37,000	\$21,700
School and Inst Trust Lands	(\$19,900)	\$0
School and Institutional Trust Fund Office	\$100	\$0
Snow College	\$3,500	\$2,300
Southern Utah University	\$43,900	\$20,600
State Board of Education	(\$30,900)	(\$24,500)
State Board of Regents	\$32,400	\$32,400
State Treasurer	\$1,200	\$600
Tax Commission	\$47,800	\$29,000
Transportation	\$48,100	\$100
University of Utah	\$115,900	\$55,400
USTAR	\$2,300	\$2,300
Utah National Guard	(\$108,800)	(\$7,300)
Utah State University	\$126,900	\$66,100
Utah System of Technical Colleges	\$29,300	\$26,900
Utah Valley University	\$52,800	\$24,500
Veterans' and Military Affairs	\$38,900	(\$200)
Weber State University	\$40,100	\$21,100
Workforce Services	\$98,800	\$21,000
Total	\$729,800	\$489,200

Table 2: Impact of Department of Human Resource Management FY 2018 Proposed Rates

Agency Name	Rate Impact	GF/EF Impact
Administrative Services	\$3,300	\$1,800
Agriculture	\$3,900	\$1,800
Alcoholic Beverage Control	\$6,900	\$0
Board of Pardons and Parole	\$600	\$600
Capitol Preservation Board	\$200	\$200
Commerce	\$3,900	\$0
Corrections	\$40,200	\$38,300
Economic Development	\$1,300	\$1,100
Environmental Quality	\$6,300	\$1,300
Financial Institutions	\$900	\$0
Governor's Office of Energy Development	\$300	\$200
Governor's Office	\$1,700	\$900
Health	\$16,300	\$8,000
Heritage and Arts	\$2,100	\$1,400
Human Services	\$52,000	\$29,400
Insurance	\$1,500	\$0
Juvenile Justice Services	\$17,100	\$16,200
Labor Commission	\$2,100	\$1,000
Natural Resources	\$21,900	\$5,800
Public Lands Policy Coordinating Office	\$300	\$200
Public Safety	\$22,200	\$9,800
Public Service Commission	\$300	\$0
School and Inst Trust Lands	\$1,300	\$0
School and Institutional Trust Fund Office	\$100	\$0
State Board of Education	\$9,200	\$6,200

State Treasurer	\$300	\$100
Tax Commission	\$11,700	\$7,700
Technology Services	\$300	\$200
Transportation	\$27,600	\$0
USTAR	\$300	\$300
Utah Communications Authority	\$500	\$0
Utah National Guard	\$4,200	\$500
Veterans' and Military Affairs	\$400	\$300
Workforce Services	\$34,800	\$7,100
Total	\$296,000	\$140,400

Table 3: Impact of Department of Technology Services FY 2018 Proposed Rates

Agency Name	Rate Impact	GF/EF Impact
Administrative Services	(\$21,700)	\$15,700
Agriculture	\$11,300	\$7,300
Alcoholic Beverage Control	\$173,100	\$0
Attorney General	\$6,500	\$2,300
Board of Pardons and Parole	\$7,200	\$7,200
Capital Budget	\$600	\$600
Capitol Preservation Board	\$12,800	\$0
Career Service Review Office	\$300	\$300
Commerce	(\$83,900)	\$100
Corrections	\$212,300	\$209,400
Courts	\$700	\$700
Economic Development	\$7,800	\$6,700
Environmental Quality	\$44,900	\$12,300
Financial Institutions	\$2,900	\$0
Governor's Office of Energy Development	\$1,800	\$1,300
Governor's Office	(\$46,000)	(\$31,100)

Health	\$198,700	\$86,300
Heritage and Arts	(\$5,200)	(\$5,300)
Human Services	\$212,200	\$115,400
Insurance	(\$27,200)	\$0
Juvenile Justice Services	\$50,000	\$47,200
Labor Commission	\$34,500	\$16,500
Legislature	\$2,400	\$2,400
Natural Resources	\$123,700	\$53,300
Office of the State Auditor	\$200	\$100
Public Lands Policy Coordinating Office	(\$20,000)	(\$12,100)
Public Safety	\$262,300	\$94,800
Public Service Commission	(\$600)	\$0
School and Inst Trust Lands	(\$4,400)	\$0
School and Institutional Trust Fund Office	\$600	\$0
State Board of Education	\$800	\$0
State Treasurer	(\$19,400)	\$500
Tax Commission	\$104,000	\$72,300
Technology Services	(\$52,400)	(\$18,000)
Transportation	\$258,300	\$100
USTAR	\$1,100	\$900
Utah National Guard	\$400	\$0
Veterans' and Military Affairs	\$9,000	\$5,300
Workforce Services	\$779,500	\$62,600
Total	\$2,239,100	\$755,100